Key tenets of Guggenheim’s fixed-income investment philosophy have always included a prioritization of capital preservation and underwriting to a hold to maturity basis. As a result, we seek to avoid market excesses while investing in securities we have fully researched and have high conviction in their issuers’ ability to pay interest and return principal. As we potentially near a turn in the current economic cycle, we thought it would be instructive to review how Guggenheim navigated the 2008 Financial Crisis for our Core-Plus fixed income clients.

Views, Strategy & Positioning

Going into 2007 & 2008 Guggenheim had the view that there was a looming housing crisis. To mitigate risk to the housing sector the firm took a number of steps across all strategies, including exiting exposure to banks and other financial entities most exposed to housing and subprime lending in particular. We also avoided Non-Agency RMBS, CDOs and below investment grade (IG) corporate credit. Credit quality and spread duration were not dissimilar from the benchmark. Portfolio allocations were most concentrated in CMBS dupers (senior AAA), Senior ABS (tilt toward Consumer), Agency RMBS, and non-financial sector IG corporate credit.

As they are today our structured credit holdings were stressed prior to purchase during the underwriting process to the worst financial environments on record for the given collateral type. This led us to stay senior in the capital structure namely within CMBS, as we expected our exposure to repay par even if we used the worst historical time period for defaults into perpetuity.

After the rescue of Bear Stearns in March of 2008 the firm and strategy at the margin began adding to existing credit risk in the above mentioned asset classes (non-housing & financial), given the widening the markets had already experienced. Total return potential seemed skewed to the upside and, importantly, we didn't panic sell. This ultimately worked for our investors over the subsequent two years, as our ability to identify credit loss remote investments and avoid defaults paid off when markets normalized.

Performance Drivers

The CMBS market (along with all structured credit) became increasingly dislocated in the Spring of ‘08 before the full blown liquidity crisis took hold in the fall. The associated markdowns drove the majority of the underperformance of the strategy over that time period. Ultimately, and as we expected, given our credit stress results during the underwriting process, CMBS AAA dupers were money good on a hold to maturity basis and there were no defaults in our holdings. Buy to hold underwriting caused us to not sell and gave us confidence to add to positions at distressed levels, which contributed to outperformance in 2009 and 2010.

Client Base

It should be noted that in 2008 our client base was concentrated with long-term investors who could tolerate short-term market volatility. The mark-to-market volatility we experienced still made for difficult conversations at the time, but given the rigor of our underwriting process we had conviction that holding our credit and not selling at the lows (and even adding) was the right long-term decision.
Process Enhancements

As our client base has broadened to more diversified total return clients (including retail), our Portfolio Construction Group has since further refined our proprietary, in-house riskometry model, which attempts to quantify the potential drawdown of a portfolio over a one year horizon under a number of stress environments (rate & economic). Portfolio limits are then set to manage towards a certain maximum expected drawdown (distinct from default risk).

As exhibited by our current positioning, we again see this time period of one to be defensively positioned by focusing on credit loss remote investments, given the expectation of future spread widening. This positioning should help to limit mark-to-market drawdowns, allowing the strategy to be able to take advantage of opportunities in credit down the line.


Past performance does not guarantee future results.

This material is not intended as a recommendation or as investment advice of any kind, including in connection with rollovers, transfers, and distributions. Such material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. All content has been provided for informational or educational purposes only and is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

No representation or warranty is made by Guggenheim Investments or any of their related entities or affiliates as to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose. The views expressed in this presentation are subject to change based on market and other conditions. The opinions expressed may differ from those of other entities affiliated with Guggenheim Investments that use different investment philosophies. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. The views and strategies described herein may not be suitable for all investors. All investments have inherent risks. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including collateralized loan obligations (“CLOs”), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management.

Not FDIC Insured. Not Bank Guaranteed. May Lose Value. GIC-COREPLUS-1119 x1120 #40291